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UNITED STATES
SECURITIES AND EXCHANGE
Washington, D.C. 20549



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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER
8- 33541

FACING PAGE

**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/07 AND ENDING 12/31/07
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: State Discount Brokers Inc
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)
27600 Chagrin Blvd.

OFFICIAL USE ONLY

FIRM I.D. NO.

(No. and Street)

Beachwood,
(City)

OH
(State)

44122
(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Sherry Bruce (216) 765-8500
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Mills, Potoczak & Co.

(Name - If individual, state last, first, middle name)

27600 Chagrin Blvd., Suite 200
(Address)

Cleveland,
(City)

OH
(State)

44122
(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

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FINANCIAL**

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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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OATH OR AFFIRMATION

I, Sherry L. Bruce, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of State Discount Brokers, Inc., as of December 31, 20 07, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Sherry L. Bruce
Signature

CEO
Title

Mary J. Rypinski
Notary Public

my commission EXPIRES
SEPT. 24, 2012

This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☒ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

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STATE DISCOUNT BROKERS, INC.
STATEMENT OF FINANCIAL CONDITION
AND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

STATE DISCOUNT BROKERS, INC.
STATEMENT OF FINANCIAL CONDITION
DECEMBER 31, 2007 AND 2006

	2007	2006
ASSETS		
Cash and equivalents	\$ 153	\$ 2,560
Cash on deposit with clearing broker (Note 2)	85,948	56,584
Receivable from clearing broker	19,000	26,177
Amounts due from related parties (Note 3)	221,139	176,288
Other receivables		3,493
Fixed assets, net (Note 4)	61,853	66,048
Deferred income taxes (Note 7)		3,207
Prepaid expenses, deposits and other	<u>23,129</u>	<u>23,058</u>
	<u>\$ 411,222</u>	<u>\$ 357,415</u>
LIABILITIES AND EQUITY		
Accounts payable and accrued expenses	\$ 26,530	\$ 13,593
Commitments (Note 8)		
Shareholder's equity:		
Common stock	100,000	100,000
Contributed capital	324,922	324,922
Retained earnings (deficit)	<u>(40,230)</u>	<u>(81,100)</u>
	<u>384,692</u>	<u>343,822</u>
	<u>\$ 411,222</u>	<u>\$ 357,415</u>

See accompanying notes.

STATE DISCOUNT BROKERS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

1. **Description of business and summary of significant accounting policies:**

Description of business:

State Discount Brokers, Inc. (the "Company") is a registered broker-dealer under the Securities Exchange Act of 1934 (the "1934 Act"). The Company is a wholly owned subsidiary of S.L. Bruce Financial Corp. (the "Parent"), and currently has one office, which is located in Cleveland, Ohio. The Company is a member of the Financial Industry Regulatory Authority (FINRA), Municipal Securities Rulemaking Board (MSRB), and Securities Investor Protection Corporation (SIPC).

The Company does not carry customer accounts or securities, but rather operates as an introducing broker on a fully disclosed basis with an unrelated clearing firm. The Company transmits all funds and delivers all securities received. The Company does not hold funds or securities for customers, nor does it owe any funds or securities to customers. The Company is exempt from the requirements of Rule 15c3-3 of the Securities and Exchange Commission ("SEC") because it operates under Section (k)(2)(ii) of that Rule.

The Company is required to maintain a minimum net capital balance (as defined) of \$50,000, pursuant to the SEC's Uniform Net Capital Rule 15c3-1. The Company's net capital balance was \$78,571 at December 31, 2007. The Company must also maintain a ratio of aggregate indebtedness (as defined) to net capital of not more than 15 to 1. The Company's ratio was .34 to 1 at December 31, 2007.

Securities transactions:

Customer securities transactions and related commission revenue and expenses are recorded on a settlement date basis, which is generally the third business day following the trade. The effect of using the settlement date rather than the trade date basis is not material.

Cash and equivalents:

For purposes of the statement of cash flows, the Company considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

Accounts receivable:

Accounts receivable are stated at cost. The Company uses the direct write-off method to account for bad debt expense. Account balances are written off as un-collectible on a case-by-case basis, principally when the Company has not received payment after exhausting all intended collection efforts. The Company had write-offs of \$4,244 in 2007 and \$0 in 2006. No interest is accrued on past due balances.

STATE DISCOUNT BROKERS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2007 AND 2006

1. **Description of business and summary of significant accounting policies (continued):**

Fixed assets:

Fixed assets are stated at cost. Depreciation of computer and office equipment and furniture and fixtures is calculated using the declining balance method over 5 to 7 years. Leasehold improvements are amortized using the straight-line method over the useful life of the improvement. For income tax purposes, the Company uses accelerated methods, where permitted.

Software development costs incurred in connection with the Company's web site were capitalized and amortized using the straight-line method over three years. Costs incurred to maintain the web site, including costs to modify web site content, are expensed as incurred.

Advertising costs:

Advertising costs are expensed as incurred.

Income taxes:

Deferred tax liabilities or assets are recognized based on the expected future tax consequences of all transactions that have been recognized in the financial statements. Such tax consequences are measured based on the provisions of enacted tax laws. Deferred tax assets (prepaid income taxes) are recognized where it is more likely than not, that such assets will be realized. Deferred income taxes principally arise from differences between financial reporting and tax depreciation.

The Company files a consolidated income tax return with its Parent. The Parent allocates consolidated income taxes to the Company based on its proportionate share of taxable income. Any income tax liabilities (or refundable income taxes) are owed to (or receivable from) the Parent.

Use of estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ significantly from those estimates.

STATE DISCOUNT BROKERS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2007 AND 2006

2. **Cash on deposit with clearing broker:**

The Company maintains a security deposit with its principal clearing broker, and earns interest thereon in accordance with the terms of the clearing agreement.

3. **Amounts due from related parties:**

	2007	2006
Note from the Company's CEO	\$174,622	\$126,726
Amount due from Parent	30,382	34,177
Other receivables	16,135	15,385
	<u>\$221,139</u>	<u>\$176,288</u>

The note from the Company's CEO is payable on December 31, 2008, along with interest at 4.72%. The Company earned interest income of \$7,070 in 2007 and \$5,265 in 2006. No collateral was pledged for the note. The Company's CEO is the sole shareholder of the Parent.

The amount due from Parent and other receivables are due on demand. No collateral is pledged for either balance.

The Company pays a management fee to its Parent for leased equipment, debt service and other administrative costs. Management fees of \$2,750 in 2007 and \$4,328 in 2006 are included in professional fees.

4. **Fixed assets:**

	2007	2006
Leasehold improvements	\$ 79,774	\$ 79,774
Furniture and fixtures	81,569	81,569
Computer and office equipment	78,728	79,935
Software development costs	58,850	58,850
	298,921	300,128
Accumulated depreciation and amortization	<u>237,068</u>	<u>234,080</u>
	<u>\$ 61,853</u>	<u>\$ 66,048</u>

STATE DISCOUNT BROKERS, INC.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED DECEMBER 31, 2007 AND 2006

5. **Other revenue:**

The Company received \$35,000 in August 2007 upon the consolidation of the NASD and NYSE Member Regulation into the Financial Industry Regulatory Authority (FINRA).

6. **Employee benefit plans:**

Effective November 1, 2006 the Company's profit sharing plan, which covered substantially all employees, was terminated. In accordance with the plan's provisions all participants were credited with a 100% non-forfeitable interest in the plan's assets at date of termination and received a distribution of their interests in 2006 from the plan's trustee. The Company did not make contributions to the plan in 2006.

7. **Income taxes (benefit):**

	2007	2006
Current federal	\$ 3,795	\$ (654)
Deferred federal	3,207	3,004
	<u>\$ 7,002</u>	<u>\$ 2,350</u>

The effective income tax rate includes the effect of lower bracket income tax rates and certain non-deductible expenses. Deferred income taxes principally result from accelerated depreciation used for income tax purposes, and available net operating loss carry-forwards.

The Company paid no income taxes in 2007 or 2006.

8. **Commitments:**

The Company leases office space, certain office equipment and a vehicle under operating leases. At December 31, 2007, the future minimum lease payments are \$42,752 in 2008 and \$6,480 in 2009. Total rent expense (including utilities for the office space) was \$70,457 in 2007 and \$72,488 in 2006.